REMARKS BY
SECRETARY OF AGRICULTURE BOB BERGLAND
BEFORE THE
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
May 1, 1979

Mr. Chairman and Committee Members:

I want to thank the Committee for this opportunity to report on an industry that is healthy in many ways; that may be troubled in some ways; that while changing remains as vital as ever to the well-being of the United States.

There is no lack of statistics to document the importance of the livestock, meat packing, and poultry industries to both the farming population and to the American economy.

Last year these industries ran up total sales of nearly $55 billion. They provide farmers with about 40 percent of their cash income from sales of all commodities. And about one-third of all consumer expenditures for food in the U.S. are for meat and poultry products.

But we are not here this morning only to talk statistics. We are here to summarize trends in the livestock, meat, and poultry industries, to review practices that may jeopardize full and fair competition in this integral sector of the American economy, and to express our commitment to do what is necessary to maintain that competition at all levels of these industries.

The purpose of the Packers and Stockyards Act is to lay the groundwork for that competition. The Act helps producers get fair prices for their livestock and poultry by preventing unfair, fraudulent, discriminatory, and monopolistic practices. The entire public benefits when free and open competition determines true market value.

Although I will be speaking about the cattle and beef packing industries in the following overview, many of the same problems also exist in the swine and lamb sectors.

I. STRUCTURE OF THE INDUSTRY

A. Prices and the Cattle Cycle

All segments of the industry--from producer, feedlot operator, to the wholesale level--are currently receiving record prices. These prices reflect limited beef supplies and strong consumer demand for high protein foods.

At the cow-calf level, prices for Choice 400-500 pound feeder steers at Kansas City averaged \$101 in March 1979, up from the \$58 price received a year earlier. In contrast, feeder prices averaged about \$29 in March 1975 and about \$41 in March of 1976 and 1977. The fed cattle prices for 900-1100 pound Choice steers at Omaha averaged \$71 this March, up from \$49 in 1978. In March 1975, 1976, and 1977, prices averaged \$36-37. At the wholesale level, prices for Choice 600-700 pound steer carcasses in March 1979 averaged \$105 per hundredweight. This was up nearly \$30 from the year earlier. In March 1975, 1976, and 1977, prices averaged in the mid to upper \$50's.

Although many changes are occurring in the cattle industry, the cattle cycle, which is a dominant factor in livestock prices, remains a constant factor.

Producers' decisions on future production are largely based on present prices. Because of the biological factors, these decisions do not show up in slaughter numbers for several years. A fed heifer is usually slaughtered at 17-19 months of age. But if put in the beef cow herd instead of going to a feedlot, a calf from this animal will not be ready for slaughter for another 2 to 2-1/2 years.

Once live cattle prices start to trend up, as they are now doing, producers normally respond by withholding heifers from the market and culling fewer cows. This further compounds the short supply situation.

It appears that we have passed out of the liquidation phase of the current cattle cycle. Producers are culling relatively few cows. Cow slaughter during the first quarter of 1979 was down about 30 percent from a year earlier. Feeder cattle sales suggest increasing heifer retention for breeding herds. The January 1980 total cattle inventory is expected to be the slightly more than a year ago. And the 1980 cow herd could be up as much as 3 percent from a year ago.

B. Cow-Calf Sector; Marketing and Pricing Methods

The feeder cattle marketing system is more fragmented than either the fed cattle or wholesale carcasses system. Small cow-calf herds are widespread throughout the nation. A typical producer sells less than one truckload of feeder cattle per year. Auction markets are assembly points where small heterogenous consignments are combined into larger, more uniform lots. Even these lots may be handled several times--through larger auctions, terminals, dealers, and order buyers--before going to the feedlot. Larger cow-calf operators tend to sell directly to feedlots.

There is no universally accepted grading system to describe the quality of feeder cattle. It is far more difficult to describe and grade feeder cattle sold sight unseen by wire or phone than it is for USDA to grade fed cattle and beef carcasses. Feeder cattle marketings are highly seasonal. Therefore, backgrounding feedlots and growing cattle on pasture are important intermediate steps to graduate the flow into feedlots.

Feeder cattle prices are established at terminal and auction markets and through direct negotiation at the farm between cow-calf operators and dealers or feedlot operators. Feeder cattle prices as reported by USDA are available to all of the industry and are widely used by buyers and sellers in determining livestock prices.

C. Cattle Feeding Industry

1. Changing Structure and Concentration - The cattle feeding industry has been characterized in the past decade by structural and geographic changes: fewer but larger feedlots, shifts in production, different financing methods, and vertical integration.

From 1969 to 1978, the number of feedlots declined by 32 percent to 127,000.

Feeding is now to a considerable extent concentrated in large-scale operations. Feedlots that can individually accommodate at least 16,000 head marketed a total of 10.2 million head or 38 percent of the total cattle marketed in 1978.

Cattle feeding has also changed geographically. There have been major increases in Colorado, Texas, and Kansas, and declines in some Corn Belt States.

Feedlots offering such marketing services as financing, buying and selling and feeding livestock for their customers are noticing an increase in demand for custom feeding. A Packers and Stockyards regulation prevents the ownership of a custom feedlot by a meat packer and vice versa to avoid conflicts of interest and potential lessening of competition for beef cattle. Until 1976, public limited partnerships in cattle feeding were popular among individuals in higher tax brackets. Legislation in 1976 reduced tax advantages to outside investors. Instead of limited partnership financing, individuals now invest through custom feeding arrangements. Joint venture/profit sharing arrangements between feedlots and slaughterers are a new type of vertical arrangement creating interest and some controversy.

2. Marketing and Pricing Methods - Fed cattle marketing since the late 1950's has been moving away from terminal markets. With improved

transportation, communication, and refrigeration, packers have been relocating away from terminal livestock markets in the more concentrated cattle feeding areas. In 1977, approximately 80 percent of all fed steers and heifers were marketed direct from feedlots to slaughtering plants. The remaining 20 percent was marketed through terminal and auction markets.

Larger operators tend to sell direct; farmer feeders tend to sell through public markets. In direct sales the feedlot operator negotiates directly with the packer cattle buyer as to price, time, and place of delivery, and all other terms of the sale. The packer buyer usually comes to the feedlot to see the cattle and negotiate for their purchase. In terminal and auction market sales, producers deliver cattle to the market where experienced marketing people perform the selling services for the producer.

A key element and function in marketing livestock is price determination. The wholesale beef price quotation published by the Yellow Sheet is the principal guide used by packers in the major midwestern and southwestern fed cattle areas in issuing price instructions to cattle buyers. Cattle buyers convert Yellow Sheet wholesale or dressed weight prices to live prices in determining the price to bid on fed cattle. Additional considerations in arriving at the exact bid price are operating costs, kill costs, byproduct values, and the estimated quality grade and yield grade for a particular lot of cattle. Live cattle prices are greatly influenced by the wholesale beef market as reported.

While packers use the Yellow Sheet, most producers get their market information through USDA.

The Department's Livestock Market News Branch, in cooperation with state departments of agriculture, releases Meat Market reports from ten wholesale meat

marketing areas. Carlot reports are issued for the east coast, central United States, Colorado, California and Washington-Oregon areas. In addition, less-than-carlot reports are issued from seven locations.

USDA reports include sales, by both weight and grade, of carcasses and cuts for beef, veal, and lamb. Pork cuts and all meat byproducts and offal items are reported by weights only. All reports reflect the range of prices being paid for the period covered. Purchases that include product with special trim or other additional services are reported but identified separately.

The reporters contact packers, jobbers, brokers, fabricators and retailers largely by telephone to obtain meat market information. To the extent possible, prices and volume are verified by cross-checking.

With the shift toward direct marketing, more cattle are being purchased on a dressed weight or "in the beef" basis. Therefore, beef carcass prices as published by the market reporting services can directly influence prices paid at the feedlot for live cattle purchased on a dressed weight basis. In 1977, cattle purchased on a dressed weight basis accounted for about 24 percent of total steer and heifer purchases by packers.

3. Cattle Feeding Margins - For cattle marketed during 1976 and 1977 net margins for Corn Belt cattle feeding on a quarterly basis showed a loss of $3 to $10 per hundredweight. In 1978 feeding showed a profit of about $12 per hundredweight on cattle sold during the second quarter; however, profits diminished and a slight loss was reported for the fourth quarter, showing a loss for the year.

The first quarter of 1979 was profitable for feeders, with a net margin of about $8 per hundredweight or $84 per head. The projection for the second quarter is slightly better.

D. Packing Industry

1. Declining Numbers - The number of facilities slaughtering cattle has steadily declined from 1,166 plants in 1969 to 832 plants in 1977. Plants have closed for several reasons, including inefficiency due to obsolete design and economic problems. Plants just beginning operation in this decade have increased production because of greater mechanization and improved efficiency.

2. Meat Packer Concentration - The weighted average four-firm concentration ratio for 23 fed cattle marketing states increased from 55.9 percent in 1969 to 63.2 percent in 1977. In each of 17 of the 23 fed cattle marketing states, four firms accounted for more than 65 percent of the total steer and heifer slaughter. The four-firm weighted average slaughter concentration ratios for other types of livestock in states that accounted for at least 75 percent of total United States slaughter in 1969 and 1977 were:

	1969	1977	States Accounting for at Least 75% in 1977
	Percent	Percent	Number
Cows and bulls	58.5	68.3	16
Hogs	70.7	76.4	14
Sheep and lambs	93.8	96.8	7

For each slaughter livestock class the four-firm concentration ratio increased quite significantly in the 8-year period. We will continue to monitor this increasing concentration and its implications for competitive marketing of livestock and meat.

3. Packer Feeding of Cattle - In 1977, 104 packers reported on their feeding of cattle and calves. These packers fed 1.5 million head, less than 6 percent of total fed cattle marketings. The percentage of cattle fed by packers compared to total slaughter has shown no significant change in trend since 1960.

The percentage varied between 6 percent and 8 percent during this period. Packer feeding is more prevalent in the western and plains states where commercial feedlots are the predominant source of fed cattle. It is less important in the Corn Belt area east of the Mississippi River where farmer-feeders remain the primary suppliers of fed cattle.

4. Grade and Weight Purchases - Selling livestock by grade and weight means that the payment price for live animals is based on hot carcass weight, rather than on live weight. Carcass prices are agreed to before slaughter. Carcasses may be priced at one flat price for the lot or carcasses may be priced according to their grades determined after slaughter.

In 1977, packers bought about 24 percent of their total cattle purchases on a carcass weight basis. This type of procurement has been increasing in actual numbers and as a percent of total purchases since 1969.

Sixty-two percent of all steers and heifers purchased on a carcass basis in the United States in 1977 were bought by packers in the west north central region. These packers also accounted for about 40 percent of the cows and bulls and 57 percent of all cattle purchased on dressed weights.

Two-thirds of all grade and weight purchases of steers and heifers were in three states--Nebraska, Iowa, and Colorado. And 53 percent of all carcass basis purchases of cows and bulls were in four states--Texas, Iowa, Minnesota, and Wisconsin.

5. Marketing and Pricing Methods - With the exception of the development of boxed beef, the marketing of dressed beef carcasses has changed little during the last decade. Principal outlets for slaughtering packers are: (1) wholesale fabricators in metropolitan areas; (2) chainstores that maintain meat warehouses which reduce carcasses to primal and subprimal cuts for distribution to individual stores; and (3) other slaughtering packers.

Dressed beef carcasses are priced primarily by formula, based on the price quoted by the Yellow Sheet. Differentials agreed to in advance for transportation and other factors are added to or subtracted from this base to determine the delivered price. Less than 30 percent of all dressed beef carcasses are sold on a negotiated price, which is a specific price agreed upon by both parties at the time of the transaction.

6. Boxed Beef - When beef carcasses are fabricated into primal or subprimal cuts, vacuum packed and boxed for shipment, the end product is referred to as boxed beef. With the increase in boxed beef marketing, there has been a reduction in the marketing of dressed beef in carcass form. Since the boxed beef concept began in the late 60's, it has grown steadily. The industry estimates that 60 percent of all fed beef marketed today is in boxed beef form. Most boxed beef is produced at the plants of slaughtering packers.

7. Financial Stability of Packers - The financial stability of the packing industry continues to be a major problem. Because livestock prices are at an all-time high, there is great need for increased operating capital.

In recent months several cow and bull slaughtering packers have discontinued business or have filed under Chapter XI of the Federal Bankruptcy Act. In the next several months cow and bull slaughterers could still have trouble maintaining adequate capital and getting livestock supplies.

In 1976, meat packers owing more than $26 million to livestock sellers went out of business. As a result, Congress that year amended the P&S Act to provide for, among other things: packer bonding, prompt payment for livestock, solvency of packers; a statutory trust for unpaid cash sellers of livestock, and authority for the Secretary of Agriculture to obtain preliminary injunctions and temporary restraining orders.

This legislation has resulted in increased protection for the livestock sellers of this nation.

The provisions were designed to prevent losses to livestock sellers before they can occur.

As a result of the insolvency provisions, packers have added more than $27 million in working capital, helping them to pay promptly. To date, 860 packers have filed bonds in the amount of $174 million to protect livestock sellers.

Since enactment of the legislation, 21 firms have discontinued business or filed for bankruptcy, owing cash sellers $10.8 million for livestock. Cash sellers have since been paid $6.8 million under the statutory trust provisions. Cash sellers' claims for an additional $4 million are now being litigated in the courts. Without the statutory trust provisions of the 1976 legislation, these total claims by cash sellers for $10.8 million would have been general claims under the provisions of the Federal Bankruptcy Act.

Several favorable decisions have been rendered in federal district courts upholding the provisions of the statutory trust. We believe that the courts will continue to support the 1976 amendments. If future problems are encountered, additional legislation may be needed.

E. Integration in the Meat Industry

Vertical integration has increased in the meat industry as a result of joint ventures and mergers by several of the nation's largest steer and heifer slaughterers. Some of these types of arrangements could have anticompetitive effects.

The Department is monitoring the efforts of meat packers to integrate into livestock feeding. Cargill, Inc., one of the nation's top ten feed companies, recently acquired MBPXL, the second largest beef slaughterer in the United States. Cargill is also involved in custom feeding livestock through its

wholly owned subsidiary, Caprock, Inc., and feeds large numbers of its own cattle. USDA has begun an investigation of the packer and custom feedlot relationship.

Increased integration and concentration, whether accomplished directly through mergers or indirectly through contractual agreements, are real concerns. Joint ventures tend to remove the involved packers from the market for fed cattle owned by independent feeders, and effectively prevent competing packers from bidding on the joint venture cattle.

Iowa Beef Processors, Inc., and its wholly owned subsidiary, Columbia Foods, Inc., entered into a joint venture with North West Feeders, Inc., a cooperative group of six large commercial feedlots in the northwestern U.S. The Department issued an administrative complaint and moved to enjoin the joint venture in the federal district court in Boise, Idaho. The court refused to grant the injunction.

Following the complaint, economic conditions in the cattle feeding and packing industry improved appreciably. The number of cattle on feed increased greatly; packers competing with Columbia Foods operated profitably, many increasing their slaughter and at least one showing record profits; and feedlot and cow-calf operators experienced improved markets.

The anticipated adverse economic effects of the joint venture did not occur.

Because of these economic changes and for several other reasons--the absence of competitive injury or disadvantage to competitors, ranchers and feeders, and the likelihood that these favorable circumstances will continue for the foreseeable future--we concluded that the public interest did not require further pursuit of the litigation. The complaint was dismissed on January 8, 1979.

We will continue to monitor joint ventures of this type. If violations of the Act are found, appropriate action will be started.

F. Formula Pricing, Price Reporting, and Thin Markets

After completing its investigation of beef pricing, the Department issued a beef pricing report in December 1978. One of the more significant findings was that approximately 70 percent of the beef carcass transactions studied were priced on a formula based on prices quoted by the Yellow Sheet.

The widespread use of formula pricing means that most carcass prices are based on a very thin market. Our analysis showed that prices for beef carcasses as published by two private reporting services were based on less than 2 percent of the total federally inspected steer and heifer slaughter. Reporting from such a narrow base may not accurately reflect the true market and increases the potential for manipulation.

I have appointed an outside task force to develop information from the industry and make recommendations for possible changes and improvements in both beef pricing and market price reporting.

G. Packer-to-Packer Carcass Sales

According to our beef pricing study, approximately 25 percent of beef carcass sales from the audited beef slaughterers were sold to other slaughtering packers. There have been complaints that the sale of carcasses between packers can restrict competition because there could be fewer buyers, apportionment of markets and collusive arrangements. The practice of packer-to-packer sales will be reviewed in greater depth when public hearings are held to determine whether anticompetitive effects at the wholesale level result from packer-to-packer carcass sales. These hearings will offer the industry an opportunity to present its position before new policy is considered.

H. Live Cattle Futures Contracts

It has been alleged that meat packers engage in live fed cattle futures speculation while in a position to manipulate the cash market, thereby enhancing their opportunity for profit in their futures activities.

In the course of the beef pricing investigation, the fed cattle futures activities of audited firms holding 50 or more August contracts were selected for study. On July 1, 1977, eight of these firms each held 50 or more August contracts for a total of 3,148 short August contracts. This represented 15.4 percent of the total open interest in the August contracts.

These contracts were legitimate hedges in that they were offset by cash positions in live cattle. The total August contract positions held by the eight packers were liquidated on or before August 19 with no actual deliveries made in connection with these contracts. The total profit realized by the eight packers in the liquidation of the August contracts amounted to $3.9 million. However, this trading profit did not take into account any profit or loss which may have been realized on the cash cattle hedged by these contracts.

This matter has been discussed with officials of the Commodities Futures Trading Commission which has jurisdiction over trading of the live cattle futures market.

II. COMPETITIVE PROBLEMS

The Department, on a continuing basis, conducts investigations of unfair and deceptive practices in livestock selling. This includes selling livestock through markets, selling livestock in feedlots and away from markets, the purchasing of livestock by packers, and selling practices at the wholesale level. Problems uncovered in these investigations are corrected administratively or by prosecution through the courts.

A. Fraudulent Weighing Practices, Accounting and Grading

Weighing Live Animals - About 4,000 market outlets, including

public markets, dealers and packers operate 4,900 livestock scales. Inaccurate or false weights result from inaccurate scales, manipulation of accurate scales, or false accounting to buyers or sellers. In 1978 we found about 17 percent of the tested scales to be mechanically inaccurate. We also found incidences of false weights at about 18 percent of the investigated scales. We will continue to emphasize the scales and weighing program to insure accurate weights.

Problems Encountered in Grade and Weight Selling of Livestock - Livestock purchased on a grade and weight basis continues to be an important market outlet for livestock. P&S has issued a regulation establishing procedures for packers to use in weighing, grading and accounting to the seller. In 1977, packers purchased on a carcass or grade and weight basis 23.2 percent of all cattle marketed, 9.1 percent of the calves, 8.9 percent of the hogs and 8.8 percent of all sheep and lambs.

When livestock producers elect to sell their livestock on the basis of grade and weight or "in the beef," the packer has complete control over weighing, grading and accounting. The Department has found instances of inaccurate weighing, grading and incorrect accounting during its investigations of grade and weight purchases. We are increasing surveillance in this matter to protect livestock sellers.

B. Commercial Bribery

Commercial bribery is payment by a supplier to an employee of a purchasing firm, usually without the knowledge or consent of the purchasing firm. This practice has been and continues to be a serious problem in the livestock and meat industries. Firms engaging in commercial bribery enjoy an unfair advantage over competitors.

The Department is increasingly monitoring instances of commercial bribery and will continue to work cooperatively with the Department of Justice to proceed criminally against individuals involved.

CLOSING STATEMENT

Areas of Concern Where Legislation May be Needed - Because of Departmental concern about recent trends in formula pricing and price reporting in the livestock and meat industries, I have appointed a task force to study these issues. This is a blue ribbon task force composed of persons from all segments of the industry, land grant colleges and the public sector. The report that comes out of this task force should give the Department a solid base on which to make a comprehensive evaluation of the need for legislation. I can assure you that no recommendations will be made in the important areas of formula pricing and price reporting until the task force has completed its work. The existing provisions of the P&S Act permit the Department to cope, without additional legislation with certain problems concerning industry concentration and integration of packers into feeding and production.

Health of the Industry - Although some problems do exist in the livestock and meat packing industries, as in other industries, I can state today that these industries are basically in a healthy condition. Consumers of this nation have a wholesome, high-protein source of food which is not available in all nations of the world. There is every reason to take pride in this industry.

Inflation is our Number One enemy. We become especially concerned when increases are reflected in food costs. Any discussion of meat price increases must take into consideration industry structure and cyclical trends. Between 1967 and 1978, the price increase for Choice steers was slightly less than for all foods as measured by the consumer price index.

I would like to thank the Committee for this opportunity to present our views on the overall status of the livestock and meat packing industries and want to assure the Committee again of the Department's commitment to full and fair competition.

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